STOLL | KEENON | & | PARK | LLP

2650 AEGON CENTER | 400 WEST MARKET STREET | LOUISVILLE, KENTUCKY 40202-3377
(502) 568-9100 PHONE | (502) 568-5700 FAX | WWW.SKP.COM

C. KENT HATFIELD
502-568-5745
hatfield@skp.com

March 29, 2004

Mr. Thomas N. Dorman
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40601

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MAR 30 2004

PUBLIC SERVICE COMMISSION

RE: Case No. 99-434

Dear Mr. Dorman:

Enclosed for filing in the above-referenced case are the original and ten (10) copies of Comments of AT&T Communications of the South Central States, Inc. on Vantage Audit Report. Please indicate receipt of this filing by your office by placing a file stamp on the extra copy and returning to me the enclosed, self-addressed stamped envelope.

Sincerely,

C. Kent Hatfield

C. Kent Hatfield
Counsel for AT&T of the
South Central States, Inc.

CKH:jms

enc.

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE COMMISSION

In The Matter of:

REVIEW OF BELLSOUTH TELECOMMUNICATIONS, INC'S PRICE REGULATION PLAN	)))	CASE No. 99-434

COMMENTS OF AT&T COMMUNICATIONS OF THE SOUTH CENTRAL STATES, LLC ON VANTAGE AUDIT REPORT

AT&T Communications of the South Central States, LLC ("AT&T"), by its undersigned counsel and in accordance with the Commission's March 17, 2004 Order in this proceeding, submits its comments on the "Review of BellSouth-Kentucky's Transition Regulatory Plan (TRP)", performed by Vantage Consulting, Inc. ("Vantage"), dated February 2004 (hereinafter referred to as "Vantage audit"). As explained below, AT&T agrees that the TRP should remain in place, subject to the continued reasonable requirement that the TRP should be of a fixed term subject to periodic review. The remainder of the Vantage audit unnecessarily and inappropriately deals with matters properly decided in existing contested cases; as a result, no weight should be given to those ill-formed recommendations.

I. WHILE THE RELEVANT RECOMMENDATION OF THE VANTAGE AUDIT IS SOUND, THE PATH TO THAT CONCLUSION IS FLAWED.

A. AT&T agrees that the TRP should be continued but with a fixed term to allow for periodic review. (Recommendations IV-R1 and IV-R4)

The purpose of the Vantage audit was to determine whether the TRP "is the appropriate regulatory framework for BellSouth-Kentucky in today's competitive telecommunications market." Vantage audit at p. 1. The company's work plan was based on the September 10, 2003 Staff memorandum and September 17, 2003 Commission letter selecting Vantage. Vantage audit at p. 1; Appendix E, p. 65. The evaluation "was governed by the over-riding goal of determining, retrospectively, whether the TRP had met its goals and whether it continued to be the appropriate structure on a going-forward basis." Vantage audit at p. 1. Given that scope and approach, it is not surprising that the "overriding recommendation" addresses whether the TRP should be continued, with Vantage concluding, correctly, that it should. *Id.* at p. 51.

As detailed in Comments filed October 13, 2003 in this docket ("October Comments"), AT&T is not opposed to continuation of the TRP, as long as the periodic review component is retained.[1] On the latter point, Vantage's recommendation is not as clear. On one hand, Vantage suggests that the TRP should be "permanent" but undercuts this on the other by acknowledging that issues will arise in the future and can be addressed through modifications. (Recommendation IV-R4). Indeed, Vantage acknowledged that "BellSouth provided no support for this position [of eliminating the term requirement] in its filing" in this docket. *Id.* Despite BellSouth's failure to muster a reason to eliminate a built in review period, Vantage created two weak reasons: the term for the current plan is a probationary period that is over and three years is a subjective

[1] AT&T further recommended that the TRP be adjusted to cease treating access differently from other forms of wholesale interconnection, with BellSouth's access rates adjusted as a result.

period. *Id.* at p. 53. Neither is persuasive, for the reasons that Vantage itself acknowledges:

> ...there are advantages to establishing a new term of some duration. When a review is conducted at that time, a snapshot picture of the marketplace is captured. As exhibited over the past three years the TRP has been in effect, numerous issues have been considered by the KPSC in both formal hearings and industry workshops. There is no reason to believe that course of action will not continue for the foreseeable future, certainly for the next three years. As such, the requirement for a three-year review provides a timely breather from the otherwise hectic pace of both KPSC and marketplace activity. It allows for a formal review and assessment of events that have occurred in the past three years and assess their implications to the structure of the TRP on a continuing basis.

Id. These positive remarks, much more developed than its conclusory endorsement of BellSouth's unsupported request for a permanent plan, demonstrate the merits of continuing with the component of a periodic review. A meaningful review encompasses full participation by the Commission and all stakeholders, and cannot be satisfied by Vantage's off-hand suggestion that this be done by BellSouth itself through an annual assessment of competition in its service territory. *Id.* at p. 54.

For these reasons, AT&T agrees with the main recommendation of the Vantage audit, that the TRP be continued, but it must continue to have a stated term, followed by a review period. This will allow Commission oversight and assessment, as well as input by interested parties. Neither BellSouth nor Vantage offer any evidence that this course has harmed or will damage BellSouth; indeed, Vantage's most enthusiastic comments were in favor of continued review. The Commission should follow this prudent approach, because local competition is fragile and only in the early stages in Kentucky, making it all the more important that continued, calendared attention be paid to the regulatory regime for the state's largest incumbent monopoly telephone company.

B. <u>The Vantage audit mistakenly credits the TRP for results it did not cause.</u>

Although Vantage reaches the correct result on the relevant recommendation in its audit, that the TRP continue, how it does so is severely flawed. It credits the TRP as "the most appropriate mechanism for moving competition forward in Kentucky." *Id.* at pp. 51, 52. As discussed below, this one-sided view ignores that there are more effective ways of promoting competition, and overstates how much competition actually exists. The audit is riddled with conclusions reached without a factual underpinning and repeatedly adopts BellSouth's positions at face value without examination or challenge. These defects undermine any BellSouth attempt to use the Vantage audit to support its position in other contexts. In addition, as discussed at pages 11-14 herein, such flaws are the basis for incorrect conclusions reached by Vantage on out of scope recommendations pertaining to the pending Contract Service Arrangements ("CSAs") and presumptive validity dockets.[2]

That such an unbalanced view is presented stems from Vantage's education by, and information gathering from, only one point of view, that of BellSouth. The only people interviewed were from BellSouth. Vantage audit, p. 2. Data requests were submitted only to BellSouth, yielding "thousands of pages of responses", *id.*, none of which have been supplied to other parties. The text of the data requests is listed at Appendix F but only a description or reference to the file produced is described. This leads to obvious questions. For example, Data Request 27 seeks: "Provide any estimates of line loss since 2000 describing the source of the loss (competitors, cell phone, net population

[2] *In the Matter of: Inquiry Into the Use of Contract Service Arrangements by Telecommunications Carriers in Kentucky,* Case No. 2002-00456 ("CSA docket") and *In the Matter of: Petition of BellSouth Telecommunications, Inc. for Presumptive Validity of Tariff Filings*, Case No. 2002-00276 ("presumptive validity docket").

movements, DSL, etc.)" *Id.* at p. 89. BellSouth provided a number of files, including those listed as CSA direct and rebuttal testimony . Whether this included all testimony in that case or just BellSouth's is unknown. But as discussed in the Vantage audit at pages 49-51, it certainly appears that only the BellSouth testimony was provided and considered. This leads one to wonder why Vantage did not inquire about and obtain the testimony and positions of other parties, which would test the accuracy of any line loss numbers supplied only by BellSouth. This lack of balance carries over to the sources Vantage consulted in the section on "US FINANCIAL AND REGULATORY PERSPECTIVE" on page 18 of the audit report. These sources led to the conclusion that "industry experts and analysts believe the financial and regulatory climates are precarious for RBOCs such as BellSouth." *Id.* at p. 18. They provide but one point of view; as shown by the attached Exhibit A, other analyst reports from the same period offer a different, and, AT&T submits, more accurate assessment of marketplace realities. Indeed, BellSouth's own public pronouncements, as shown in the attached Exhibit B, are more in line with these analysts, touting the advantages it has in the marketplace as against the one-sided view fed to Vantage.

That Vantage relied only on information from BellSouth is further puzzling, in light of Objective 7 of the TRP, which has the goal to "ensure that the potential introduction of competition to all markets in Kentucky is not hindered by the plan." *Id.* at p. 4. No competitor was consulted on this point. The information Vantage relied upon came solely from BellSouth.[3] Although required by the TRP, and indeed, promised as part of

[3] See Vantage audit, p. 49. The information relied upon is set forth in fn. 52 as the response to Data Request 46, provided by BellSouth.

the audit's assessment,[4] the point of view of competitive local exchange carriers ("CLECs") was neither sought nor contained in the audit. This is troubling enough, but worse is that the audit did not further investigate and seek comments from competitors as to BellSouth's efforts to eliminate competition. At page 40 of the audit, Vantage cites the incumbent monopoly's corporate objective of eliminating competition:

> III-F13 BellSouth's strategic plan has effectively addressed the issue of line losses and has implemented a well-defined implementation plan to react to competitive pressures that have lead to the diminution of its market share.
>
> ...BellSouth's strategic planning has evolved ...to re-emphasize customer retention strategies and an aggressive market response program. Introduced in 2003, the company implemented a competitive response program that monitors, analyzes and triggers specific responses to specific competitive pressures. Each alert identified by the market monitoring system, depending upon a defined level of priority, has a specific timeline and deliverable associated with the alert.

It is quite disturbing that Vantage can blithely report that this corporate strategy occurs within the TRP, yet fails to comment on how this is at all appropriate when Objective 7 of the plan states that the TRP should not hinder competition in Kentucky.

By relying only on BellSouth's information and point of view, Vantage mistakenly credits the TRP with promoting local competition in Kentucky. As noted in AT&T's October Comments at p. 2, this has actually been nurtured by the Telecommunications Act of 1996 and resulting decisions which made UNE-P available[5] and which provided

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[4] The "Project Objectives" section promises "a focused audit that will assess...(2) the appropriateness of the plan's structure for meeting the Comission's need to balance the interests of all entities affected by its regulation – including BellSouth-Kentucky's customers, *competitors*, and owners...." Vantage audit at p. 1 (emphasis added).

[5] Vantage does acknowledge UNE-P pricing as one of "the major competitive conduits." Vantage audit at p. 5; see also, p. 11, which discusses the dramatic growth in CLEC use of UNE-P: "[o]ver the six month period January-June of 2003, ILECs reported to the FCC a 27 percent increase in UNE loops with switching along with a 1 percent reduction in UNE loops without switching." BellSouth, however, continues its history of vigorously opposing the availability of UNE-P, most recently in this Commission's *Review of the Federal Communications Commission's Triennial Review Order Regarding Unbundling*

for TELRIC pricing. The TRP, as the form of regulation of BellSouth, did not thwart these pro-competition developments. It certainly did not cause them.

Similarly, given that BellSouth is the source of its information, Vantage overstates the amount of local competition in Kentucky. There is a history of this, as in its 1999 audit, conducted in Docket No. 94-121, Vantage concluded "that competition has now arrived in Kentucky is a certainty." Vantage 1999 audit, p. 49. That predecessor report "...considered BST's business plan projections, which show the current versus projected service levels and revenues. For example, in 1998, BST-KY had 73% of the local service market with a projection that in 2002, this level would be reduced to 39%." Vantage 1999 audit, p. 5. This demonstrates the hazard of depending upon a one-sided point of view which has a track record of exaggeration: competition was in its infancy in 1999 and the dire losses BellSouth predicted for the future have not materialized. As discussed on page 7, BellSouth had a market share of 89% in Kentucky as of December 31, 2002, which decreased by 2%, to 87%, as of June 30, 2003. This is hardly the dramatic plummet in market share predicted by BellSouth in 1999, and readily adopted by Vantage.

Vantage, however, continues to accept BellSouth's claims at face value. On page 14 of the audit, Vantage reviewed the FCC data on CLEC access lines in the BellSouth states as of June 30, 2003 (which shows that only Mississippi has fewer access lines than Kentucky), but criticized the FCC data as under-reporting the actual number. Their reasoning parrots that of BellSouth in the presumptive validity case, that the FCC reporting requirement that a CLEC with less than 10,000 lines need not file a report

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Requirements for individual Network Elements, Case No. 2003-00379 (hereinafter referred to as "TRO Docket").

results in an understatement of CLEC access lines. As a result, claims Vantage, "[t]his leaves Kentucky underrepresented on CLEC lines by 73,000 to 130,000", Vantage audit at p. 15, citing as the source BellSouth's estimate "based on FCC Form 477 data and best available information on CLECs." *Id.* at fn. 12. No effort is made to challenge this unattributed, unsubstantiated conclusion. It is suspect, however, because the most likely source for BellSouth's estimate is the use of E911 listings described by BellSouth witness Ruscilli in the presumptive validity docket. BellSouth relies on E911 database listings as a source for estimating the number of CLEC self-provisioned access lines. The testimony of AT&T witness Mark Argenbright, in that docket pointed out that this approach likely overstates CLEC access lines.[6] Because his testimony was filed on September 22, 2003, Mr. Argenbright used the latest FCC data available at that time (as of December 31, 2002, contained in the June 12, 2003 FCC Report), to calculate the total number of CLEC access lines in Kentucky.[7] This totaled 142,598 lines. By adding the number of BellSouth access lines reported for the same period (1,132,217), the total number of CLEC and BellSouth access lines in Kentucky was 1,274,815, thereby giving CLEC access lines 11% market share in BellSouth's Kentucky territory.[8] Using the most current FCC data, as of June 30, 2003, the total number of CLEC access lines is 157,318, with a resulting market share of 13% in BellSouth's Kentucky territory. That CLECs have such a low market share hardly suggests robust local competition.

In another example of how the audit simply regurgitates BellSouth's position, thereby overstating the amount of competition in Kentucky, Vantage states that

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[6] See Direct Testimony of Mark Argenbright at pp. 16-20.

[7] *Id.* at p. 21.

[8] *Id.*

"BellSouth continues to witness a diminution of its market share due to CLEC competition. BellSouth claims that there are now over 200,000 Kentucky customers being served by CLECs." Vantage audit at p. 40. Footnote 29 cites Data Request 21 as the source for this, but that requested the company to "[p]rovide BellSouth strategic plans or objectives for the three years of 2000-2003 and their impact on Kentucky", which does not appear to have anything to do with the number of lines lost to competitors, which was the subject of a different data request, number 27. The murky nature of the source makes the accuracy of such figures suspect, especially when more substantiated evidence to the contrary exists.

The recent testimony in the TRO docket is instructive, especially that of CompSouth witness Joseph Gillan. His direct testimony analyzes, at pages 7-12, how local competition is developing in Kentucky, and his Exhibit JPG-2 demonstrates that UNE-P is used in all wire centers in BellSouth's territory. Mass market competition (residential and small business, that is, the average POTS customer) depends on CLECs "being able to access BellSouth's loop network in a commercially meaningful way. For all practical purposes, that access is obtained through the use of BellSouth's unbundled local switching, which provides electronically controlled access to BellSouth's analog loop plant through the combination known as UNE-P".[9] The use of UNE-P has greatly increased in Kentucky, thereby bringing the benefits of competition to more Kentucky consumers.[10] Without UNE-P, Vantage's overconfident assertion that it "believes residential competition exists in Kentucky and will continue to grow"[11] will definitely

[9] Direct testimony of Joseph Gillan Associates, at p. 7, TRO docket.
[10] *Id.* (Table 1)
[11] Vantage audit, p. 44.

fail, as continued availability of UNE-P is the engine driving the growth in mass market competition.

As of June 2003, based on the data BellSouth provided to the FCC, the number of Kentucky lines served by UNE-P was 108,254 and the number served by UNE-L was 3,273.[12] These numbers present a good "sanity check" against what some source at BellSouth gave Vantage, when, as discussed earlier, the company "claims" that over 200,000 Kentuckians are served by CLECs. It is telling that Vantage made no effort to check or investigate BellSouth's numbers. In a report that systematically overstates competition, they are inappropriately accepted as fact.

II. RECOMMENDATIONS OUTSIDE OF THE SCOPE OF THE AUDIT SHOULD NOT BE CONSIDERED, ESPECIALLY WHEN THEY ARE THE SUBJECT OF SEPARATE DOCKETS EXAMINING THE ISSUES IN DETAIL.

The September 10, 2003 Staff Memorandum recommended, at page 4, that the scope of the audit be limited to the TRP, noting that "issues that may otherwise be appropriate to include in the scope of this audit will be addressed in the CSA and presumptive validity cases. Therefore the Staff has tried to develop a scope that does not duplicate effort." Vantage acknowledges in the audit that these two cases "transcend the TRP." Vantage audit at p. 3. Notwithstanding that they are outside of the TRP and the scope of its audit, Vantage nonetheless offers recommendations pertaining to both the CSA and the presumptive validity cases. For the reasons set forth below, it is entirely inappropriate for the audit to delve into these contested matters. Vantage's recommendations IV-R2 ("The KPSC should consider taking the next step in further

[12] *Id.*

relaxing regulatory oversight of BellSouth's and CLECs tariffs through establishing some form of presumptive validity"[13]) and IV-R3 ("The KPSC should strongly consider accepting, in some fashion, the Joint Industry Proposal put forth by BellSouth, Kentucky ALLTEL and Cincinnati Bell regarding Contract Service Arrangement Standards"[14]) must be rejected.

First, both of these matters are the subject of hotly contested cases pending before this Commission. It is improper for Vantage to inject its uninvited, untested opinion into the mix. As a practical matter, however, Vantage's opinion sends inconsistent messages and therefore should be disregarded on these issues.

Second, Vantage's comments on these matters suffer the same flaws pointed out earlier: no independent, critical analysis is provided, for BellSouth's position is adopted at face value. BellSouth is the source of all information considered. The only testimony reviewed is that of the BellSouth witnesses, despite the ready availability of all testimony in the record of both cases. Vantage acknowledges as much, saying of the CSA case:

> As previously stated, this case is pending and Vantage admits to not reviewing all submissions and testimony, as that is far outside the scope of this effort. However, a limited summary of some salient issues is appropriate.

Vantage audit at p. 50. [15] This is nonsensical. Reviewing the CSA case at all is outside the scope of work for the audit, yet Vantage takes that on, declares that it can only do half the job and then boldly asserts that this is "appropriate" when it could not be more inappropriate. Such uncritical acceptance of the BellSouth point of view calls into question whether Vantage has achieved the appropriate balance its audit requires.

[13] *Id.* at p. 52
[14] *Id.*
[15] Similarly, Vantage's discussion of the presumptive validity issues references only the testimony of BellSouth witnesses. *Id.* at pp. 47-48, 52.

Indeed, if BellSouth tries to cite to Vantage's work during either of those cases, it will simply demonstrate the audit's lack of balance.

Third, Vantage's arguments are often inconsistent. Vantage acknowledges that BellSouth has proved no harm or need for changes in the presumptive validity case, then concludes that BellSouth's request should be granted:

> Vantage notes that all local exchange carriers in Kentucky are required to give the KPSC 30 days notice of tariff changes and *that BellSouth-Kentucky has presented no compelling evidence as to the "harm" the lack of this language in the TRP has caused*...Not-with-standing that, BellSouth-Kentucky filed a petition in July 2002 for presumptive validity treatment of certain of its tariffs....

Id. at p. 47 (emphasis added). After reciting the history of that case, it is observed that:

> It should be noted that the Commission in its April 2003 Order in Case No. 2002-00276, did offer the following provision:
>
> "Should time be of the essence for any tariff, the Commission stands ready, willing and able to consider shortening the notice period. The Commission also recommends that a carrier desiring expedited review confer informally with Staff before filing its tariff. Notifying Staff of the need for expedited review may help ensure that BellSouth's goals are met."
>
> *It is not clear to what extent, if any, BellSouth-Kentucky has availed itself of this opportunity.* Regardless, the basic principle of presumptive validity remains. Vantage has seen no evidence of BellSouth-Kentucky consistently filing pricing revisions which, based on the Commission's 30 day review cycle, were denied. As such, Vantage continues to support its original presumptive validity recommendation put forth in its 1999 Audit Report.

Id. (fn. omitted) (emphasis added). The discussion points to the conclusion that the relief requested is unnecessary, but Vantage nonetheless drops back to supporting BellSouth's position. Similarly, with regard to CSAs, there is no indication that current practice has harmed BellSouth: "the KPSC has approved all BellSouth CSAs, other than one issued in 1990." *Id.* at p. 49 (fn. omitted). The recommendation ends up concluding that "there is no reason to support a change to the current TRP CSA filing and review, approval provisions", *id.* at p. 53, recognizes that the "similarly situated" requirement should remain, recommends that the customer name be kept confidential, and then delves into requirements for CLECs – clearly outside the scope of the TRP.

For these reasons, the audit report recommendations on matters which are the subject of pending dockets should be rejected. The CSA and presumptive validity dockets should be decided on their own merits, with no weight given to the unsolicited, unsupported, and confusing analysis offered in the Vantage audit.

III. CONCLUSION

As discussed above, the Vantage audit correctly suggests that the TRP should be continued, but a term must remain in the plan in order to provide for periodic Commission oversight and review. The extraneous suggestions about other pending dockets should be disregarded. AT&T suggests that future "audit" reports incorporate the viewpoints of all interested parties, including competitors and consumers, in order to reflect a more balanced approach.

Respectfully submitted this 29th day of March, 2004.

C. Kent Hatfield

C. Kent Hatfield
Stoll, Keenon, & Park, LLP
2650 AEGON Center
400 West Market Street
Louisville, KY 40202
(502) 568-9100

Martha M. Ross-Bain
AT&T
1200 Peachtree Street, Suite 8100
Atlanta, GA 30309
404-810-6713

ATTORNEYS FOR AT&T COMMUNICATIONS
OF THE SOUTH CENTRAL STATES, LLC

CERTIFICATE OF SERVICE

This is to certify that I have this 29th day of March, 2004 caused to be served by United States mail a copy of the within and foregoing Comments upon the following persons, properly addressed as follows:

C. Kent Hatfield

C. Kent Hatfield

Honorable Jonathon N. Amlung
Attorney at Law
1000 Republic Building
429 W. Muhammad Ali Boulevard
Louisville, KY 40202-2347
jonathon@amlung.com

Larry Barnes
Director Of Regulatory Affairs
BroadWing Telecommunications, Inc.
1122 Capital of Texas Highway South
Austin, TX 78746-6426

Deborah Barrett
Vice President, Regulatory
One Call Communications,Inc.
dba AdvanTel, et al
Suite 100
801 Congressional Boulevard
Carmel, IN 46032

Honorable Richard M. Breen
2950 Breckenridge Lane
Suite 3
Louisville, KY 40220

Honorable Dorothy J. Chambers
General Counsel/Kentucky
BellSouth Telecommunications, Inc.
601 West Chestnut Street, Room 410
P. O. Box 32410
Louisville, KY 40232
BellSouthKY.CaseFilings@BellSouth.com

Honorable Ann Louise Cheuvront
Assistant Attorney General
1024 Capital Center Drive
Frankfort, KY 40601-8204
Ann.Cheuvront@law.state.ky.us

Laura Clore
Regulatory Manager
One Call Communications,Inc.
dba OPTICOM
801 Congressional Blvd.
Suite 100
Carmel, IN 46032

Honorable Gene V. Coker
AT&T Communications of the South
Central States, LLC
1200 Peachtree Street, N.E.
Suite 8100
Atlanta, GA 30309

Dr. Mark Cooper
Citizens Research
504 Highgate Terrace
Silver Spring, MD 20904

Dr. Bob Davis
113 Pebble Beach
Georgetown, KY 40324

Julie Davis
Regulatory Manager
BLT Technologies, Inc.
c/o MCI WorldCom, Inc.
6 Concourse Parkway
Suite 3200
Atlanta, GA 30328

Mr. Thomas Deward
Certified Public Accountants
Larkin and Associates, PLLC
15728 Farmington Road
Livonia, MI 48154

Walter P. Drabinski
President
Vantage Consulting, Inc.
230 Sugartown Road, Suite 110
Wayne, PA 19087
vancon@vantageconsulting.com

Mr. Ben W. Fincher
Sprint Communications Company L.P.
Southeast Division
3065 Cumberland Circle, SE
Mailstop GAATLD0602
Atlanta, GA 30339

Jennifer Goldston
Regulatory Analyst
VarTec Telecom, Inc.
dba Clear Choice Communications
1600 Viceroy
Dallas, TX 75235

Honorable C. Kent Hatfield
Attorney at Law
Stoll, Keenon & Park, LLP
2650 AEGON Center
400 West Market Street
Louisville, KY 40202
hatfield@skp.com

Honorable John N. Hughes
Attorney At Law
124 West Todd Street
Frankfort, KY 40601
jnhughes@fewpb.net

Mr. Carl Jackson
Senior Director
ICG Telecom Group, Inc.
180 Grand Avenue, Suite 450
Oakland, CA 94612

Dr. Marvin Kahn
Exeter Associates
12510 Prosperity Drive
Silver Spring, MD 20904

Lyle Keyes
Chairman & Secretary
Teltrust Communications Services,
Inc.
401 N. 5600 W
Salt Lake City, UT 84116-3753

Thomas Kramer
Sr. Vice President
Cincinnati Bell Long Distance
Inc.
CBLD Center, Suite 2300
36 East Seventh Street
Cincinnati, OH 45202

Eric Kremer
Tax & Audit Manager
One Call Communications,Inc.
dba OPTICOM
801 Congressional Blvd.
Suite 100
Carmel, IN 46032

Kim Logue
Regulatory Analyst
LCI International Telecom Corp.
Qwest Government Affairs
4250 N. Fairfax Drive
13th. Floor
Arlington, VA 22203

Demara Madison
Regulatory Compliance Coordinator
Cable & Wireless USA, Inc.
1130 Connecticut Avenue, NW #1201
Washington, DC 20036

Honorable Thomas A. Marshall
Attorney At Law
212 Washington Street
P.O. Box 223
Frankfort, KY 40601
tamarshall@mac.com

Darrell Maynard
President
SouthEast Telephone, Inc.
106 Power Drive
P.O. Box 1001
Pikeville, KY 41502-1001

Honorable Martha P. Mcmillin
MCI WorldCom
6 Concourse Parkway
Suite 3200
Atlanta, GA 30328

Honorable Holland N. McTyeire, V
Attorney at Law
Greenebaum Doll & McDonald PLLC
3300 National City Tower
101 South Fifth Street
Louisville, KY 40202-3197
hnm@gdm.com

A. Joe Mitchell
President
Vartec Telecom, Inc.
3200 W. Pleasant Run Road
Lancaster, TX 75146

Michael Nighan
Director, Regulatory Affairs
Frontier Communications of America, Inc.
180 South Clinton Avenue
6th. Floor
Rochester, NY 14646

Mr. Carl Provelites
GTE Mobile Comm. Service Corp.
245 Perimeter Center Parkway
Atlanta, GA 30346

Honorable W. Brent Rice
Attorney At Law
McBrayer, McGinnis, Leslie and Kirkland, PLLC
201 East Main Street
Suite 1000
Lexington, KY 40507

Garry L. Sharp
State Manager
AT&T Communications of the South Central States
1200 Peachtree St., NE
Suite 8100
Atlanta, GA 30309
glsharp@comcast.net

This is the Service List for Case 1999-00434

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

KPSC CASE NO. 99-434

COMMENTS OF AT&T COMMUNICATIONS OF THE SOUTH CENTRAL STATES, LLC ON VANTAGE AUDIT REPORT

EXHIBIT A

Source: RHK Inc., Understanding ILECs by the Numbers, February 2004

Executive Summary (page 1)

Incumbent local exchange carriers (ILECs), owner-operators of the last-mile connections to most end users in the country, dominate the vast local telecom market in the United States. Throughout the telecom downturn, they have proven to be particularly resilient, and are the only service providers still spending capital at double-digit percentages of revenue.

RHK Analysis (page 2)

CLECs as a group have gained share in recent years, surpassing 20 percent penetration in some states such as New York, Rhode Island, and Michigan. They now serve upwards of 27 million access lines, about 15 percent of total. However, they have suffered in the face of changing investor sentiment and an uncertain regulatory environment around UNE-P (unbundled network element-platform). Many of the pure CLECs have been forced into bankruptcy; others have survived by drawing on the resources of their parent companies or stronger partners. Because of this, RHK expects these companies to continue to rely mainly on ILEC infrastructure and minimize capital investment—at least until future regulatory direction becomes clearer.

ILECs, on the other hand, are expected to continue making significant investments into their networks. They maintain an aggregate capital intensity (ratio of capital expenditures to revenues) of about 15 percent, versus 12 percent for wireline carriers overall. Investment areas include broadband access, enterprise services, voice over IP (VoIP), and fiber-to-the-premises (FTTP). The high level of investment is supported by the ILECs' strong financial position. Many industry observers even expect some of the ILECs to acquire long-distance providers such as AT&T and MCI.

Unbundled network element-platform (UNE-P) (page 11)

While RBOCs tend to focus on the negative impact of UNE-P to their economics, recall that deregulation also opened the doors for them to enter the long-distance market. As shown previously in Figure 4, RBOCs have been quite successful in this market, and now have more than twice as many long-distance lines as they have UNE-P lines.....

RBOCs clearly have been the net beneficiaries of telecom regulation, while traditional long-distance carriers have been net losers.

Source: Raymond James, The Weekly Call, Wireline Telecommunications Services Weekly Sector Review. March 12, 2004

This Week in Telecom

Highlights from NARUC (page 1)

FCC Chairman Michael Powell spoke to the National Association of Regulatory Utility Commissioners this week, with his statements surrounding the Triennial Review and the D.C. Circuit Court gaining the most attention among followers of telecom. Mr. Powell called on incumbents and UNE-P providers to negotiate commerc9ial agreements for switching services in the next 30 days. Chairman Powell also stated his intention not to appeal the D.C. Circuit Court ruling, although Commissioners Martin, Adelstein, and Copps all indicated they would be appealing to the Supreme Court. In the absence of commercial agreements, Mr. Powell proposed establishing an interim 18-month plan at the FCC to protect against major disruptions to current UNE-P customers.

Our View (page 2)

More good news for the RBOCs, which would be happy to set market-based switching rates for UNE-P providers. We believe the three "majority" Commissioners that approved the TRO will continue to force and appeal of the D.C. Circuit Court ruling, although we are not convinced the Supreme Court would consider hearing the case.

Regardless, an appeal would give the FCC a bit more time to follow through with Powell's 18-month transition rule proposal, although we wonder if the Commissioners can come to a compromise on such a ruling. If not, we believe switching will go to tariffed pricing, and disagreements are likely to only benefit the RBOCs, as CLECs not agreeing to their pricing could be denied service. We note, however, the CLECs are at a disadvantage on this, as the RBOCs would not appear to us to be motivated negotiators.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

KPSC CASE NO. 99-434

COMMENTS OF AT&T COMMUNICATIONS OF THE SOUTH CENTRAL STATES, LLC ON VANTAGE AUDIT REPORT

EXHIBIT B

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A QUARTERLY PUBLICATION JANUARY 22, 2004

BellSouth Reports Fourth Quarter Earnings

INSIDE...

Click here to view a complete set of financial statements.

- **4 million long distance customers**
- **1.5 million high-speed Internet customers**
- **642,000 Cingular Wireless net additional customers**
- **345,000 Latin America net additional customers**

ATLANTA – BellSouth Corporation (NYSE: BLS) reported earnings per share (EPS) of 43 cents in the fourth quarter of 2003, including special charges totaling 8 cents (see below). This compared to reported EPS of 31 cents in the fourth quarter of 2002, which included special charges totaling 14 cents (see below).

For the fourth quarter, consolidated revenues increased 0.9 percent to $5.7 billion compared to the same quarter of the previous year. Net income was $787 million compared to $574 million in the same quarter a year ago.

In accordance with Generally Accepted Accounting Principles (GAAP), BellSouth's reported consolidated revenues and consolidated operating expenses do not include the company's 40 percent share of Cingular Wireless. Normalized results include BellSouth's 40 percent proportionate share of Cingular's revenues and expenses.

Normalized EPS of 51 cents increased 13.3 percent in the fourth quarter of 2003 compared to 45 cents in the same quarter a year ago. Normalized revenues were $7.3 billion, an increase of 4.1 percent versus the fourth quarter of 2002. Normalized net income was $949 million, compared to $846 million in the same quarter a year ago.

Full Year Results

For the full year of 2003, BellSouth reported EPS of $2.11. This compared to 71 cents in 2002, which included special charges totaling $1.32 outlined in the attached financial statements. For the full year, consolidated revenues increased 0.9 percent to $22.6 billion. Reported net income was $3.9 billion compared to $1.3 billion the previous year. Normalized EPS was $2.07 compared to $2.03 in 2002. Including Cingular, revenues were up slightly versus 2002 at $28.7 billion. Normalized net income was $3.8 billion for the year, up slightly compared to 2002.

Operating free cash flow (defined as cash flow from operations less capital expenditures) totaled $5.3 billion for the full year. Capital expenditures for 2003 were $3.2 billion, a reduction of 15.5 percent compared to 2002. Total debt at December 31, 2003 was $15.0 billion, a reduction of $2.4 billion since the first of the year.

In November, BellSouth's Board of Directors declared an 8.7 percent increase in the quarterly common stock dividend, payable February 2, 2004. Over the last seven quarters, the company has increased its quarterly dividend 31.6 percent to 25 cents per common share.

Communications Group

In 2003, BellSouth Long Distance and DSL high-speed Internet service revenue growth offset access line declines holding Communications

For further information, contact Investor Relations at 800-241-3419
www.bellsouth.com/investor
Nancy Davis, Vice President 404-249-3491
Greg Peterson, Director 404-249-3436
1155 Peachtree Street, NE, Room 14B06
Atlanta, Georgia 30309-3610

Group revenues nearly flat at $18.4 billion compared to 2002. In the fourth quarter, revenues increased 2.1 percent to $4.6 billion compared to $4.5 billion in the same quarter the previous year. Operating margin for the quarter improved to 25.7 percent compared to 24.6 percent in the same quarter last year.

In the fourth quarter, BellSouth Answers℠ packages increased to more than 3 million, which represents a 24 percent penetration of primary access lines. Answers combines customers' local, long distance, Internet and wireless services all on one bill. BellSouth® Unlimited Answers℠ contributed to the growth in package customers with subscribers exceeding 1 million at the end of fourth quarter. Unlimited Answers allows customers to call anywhere in the United States anytime for a flat monthly fee.

In the fourth quarter, Communications Group revenues increased 2.1 percent.

BellSouth added approximately 3 million long distance customers during 2003, for a total of 3.96 million customers and almost 30 percent penetration of its mass market customers by year-end. During the fourth quarter, about 40 percent of new customers included international long distance in their calling plans. This was due in part to the October introduction of BellSouth's International Advantage Plan, which offers residential customers competitive flat rates at any time of day to many countries including Canada and Mexico.

BellSouth added 126,000 net DSL customers in the fourth quarter of 2003, compared to 97,000 customer additions in the fourth quarter of 2002, bringing its end of year total subscribers to 1.46 million. BellSouth® FastAccess® DSL Lite contributed to this increase. BellSouth's Internet access portfolio offers customers an easy migration path from dial-up Internet access to two different tiers of high-speed Internet access with the option to add features like home networking and parental controls. Lead by DSL, data revenues of $1.1 billion grew 4.0 percent in the fourth quarter of 2003 compared to the same quarter of 2002.

Total access lines of 23.7 million at December 31 declined 3.6 percent compared to a year earlier, impacted by the economy, competition and technology substitution. Residence and business access lines served by BellSouth competitors under UNE-P (unbundled network elements-platform) increased by 199,000 in the fourth quarter.

Domestic Wireless/Cingular

Cingular Wireless added 642,000 net cellular/PCS customers in the fourth quarter. Cingular's focus on calling plans tailored to local markets and co-branding and bundling programs with its parent companies were significant contributors to growth at Cingular, which ended the quarter with more than 24 million cellular/PCS customers.

As disclosed in Cingular's press release, the company changed its presentation of Universal Service Fund (USF) payments and receipts to a gross basis. Reflecting this change, BellSouth's share of Cingular's revenues was $1.6 billion, a gain of 5.7 percent compared to the same quarter a year ago. Segment operating income was $131 million for the quarter compared to $284 million in 2002. Fourth quarter operating margins were impacted by significantly higher gross customer additions, extensive customer retention programs, increased advertising and costs associated with launching wireless local number portability. For the full year of 2003, segment operating income totaled $915 million compared to $1.1 billion in 2002.

Cingular continues to upgrade network efficiency and capability through movement of its subscriber base to GSM/GPRS and deployment of EDGE. By the end of 2003, the company's GSM/GPRS network was available to 93 percent of its potential customers and with approximately 57 percent of subscriber minutes traveling on this upgraded network.

Latin America Group

Growth in customers, revenues and margins continued in the Latin America wireless group during the fourth quarter of 2003. Wireless customers increased 345,000 on a consolidated basis. Year-over-year, customers increased 1.5 million, or 18.6 percent. BellSouth's Latin America group served 9.7 million customers at year-end.

Consolidated Latin America revenues increased 30.9 percent to $636 million in the fourth quarter of 2003 compared to the same three months of the previous year. Strong customer growth in Venezuela, Argentina, Chile and Colombia drove the increase in segment revenues. Focusing on growing revenues, improving operating margins and targeting capital deployments contributed to positive operating free cash flow in 2003. Segment net income was $62 million in the fourth quarter and $161 million for the full year.

During the fourth quarter, BellSouth entered into a debt purchase agreement with senior secured creditors of BCP, a wireless company in Sao Paulo, Brazil. As a result of the agreement, BellSouth sold its entire interest in BCP and recognized a total net loss associated with the sale of $161 million.

Advertising & Publishing

Advertising & Publishing revenues were $522 million in the fourth quarter of 2003, a decrease of 6.1 percent compared to the same quarter a year ago, resulting in part from reduced spending on advertising and continued competition. Segment net income of $147 million was 24.6 percent higher than the fourth quarter of 2002, primarily as the result of improvement in uncollectibles expense. Full year operating revenues declined 5.0 percent and net income improved 10.1 percent.

Special Items

In the fourth quarter of 2003, the difference between reported (GAAP) EPS of 43 cents and normalized EPS of 51 cents is the result of three special items:

Foreign currency transaction gains	1 cent	Gain
Pension settlement/severance costs	1 cent	Charge
Sale of Brazil SP	9 cents	Charge
Effect of Rounding	1 cent	
Total of special items	8 cents	Charge

Foreign currency transaction gains – Primarily associated with the remeasurement of U.S. dollar-denominated liabilities in Latin America.

Pension settlement/severance costs – This charge represents the net severance related costs recorded in the fourth quarter associated with workforce reductions, offset by pension settlement gains associated with workforce reductions.

Sale of Brazil SP – Loss on sale of Brazil SP.

In the fourth quarter of 2002, special charges totaled 14 cents per share, after rounding, for: asset impairments (11 cents); workforce reduction (3 cents); disposition of Listel (3 cents); foreign currency transaction losses (1 cent) and an adjustment of 4 cents to Advertising & Publishing results to reflect the 2003 accounting change.

Normalized Earnings Summary[1]	4Q03	4Q02	% chg	YTD03	YTD02	% chg
EPS – Reported Diluted	$0.43	$0.31	38.7%	$2.11	$0.71	197.2%
Gain on E-Plus conversion and sale of KPN stock					(0.46)	
Losses on equity investments					0.15	
Brazil loan impairments					0.14	
Unbilled receivable adjustment					0.05	
Foreign currency transaction losses (gains) – primarily debt related	(0.00)	0.01		(0.06)	0.32	
A&P accounting change		(0.04)		0.27	0.00	
SFAS 142 Impairment Charge					0.68	
Adoption of SFAS 143				(0.44)		
Pension Settlement / Severance Costs	0.01	0.03		0.05	0.22	
Loss on sale of Brazil NE, SP and Listel	0.09	0.03		0.13	0.03	
Asset Impairments		0.11		0.02	0.15	
Early extinguishment of debt					0.01	
FL Late Payment Fees					0.04	
EPS – Normalized[2]	$0.51	$0.45	13.3%	$2.07	$2.03	2.0%

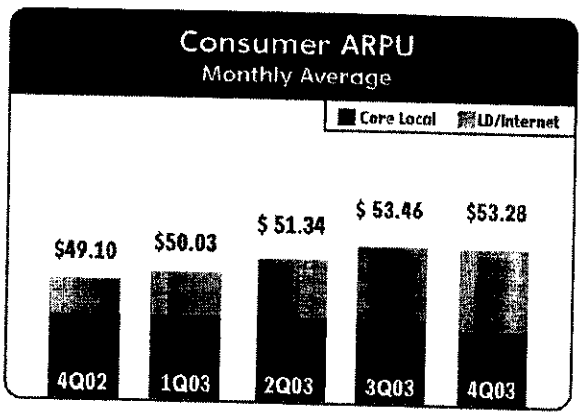
[1]See press release for an explanation of all normalizing items.
[2]Normalized earnings per share may not sum due to rounding.

Communications Group

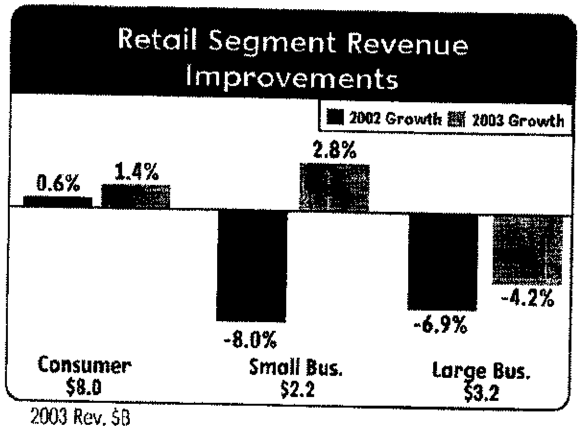
Revenues in the Communications Group increased 2.1 percent over fourth quarter 2002 driven by a 2.5 percent increase in voice revenue and a 4.0 percent increase in data revenue. Revenue growth was driven by increased sales of interLATA long distance and FastAccess® DSL, both of which were spurred by sales of BellSouth Answers℠. This was offset to a degree by continued retail access line market share loss, technology substitution and the phase-out of BellSouth's payphone business.

Revenues from the Consumer unit, which accounts for about 43 percent of Communications Group revenues, grew 2.1 percent. This was driven by growth in interLATA long distance and DSL, combined with growth in BellSouth Answers partially offset by 7.3 percent retail residential access line loss. Consumer ARPU rose 8.5 percent over the same quarter of the prior year to $53.28. Consumer has reacquired one out of every two competitive disconnects during 2003.

Small business revenue grew 6.7 percent, driven by a strong customer reacquisition program and growth in packages. In addition, small business saw improved year-over-year access line trends. BellSouth's retail small business unit remained focused on customer retention and reacquisition. Competitive disconnects, an indicator of retention, were down 32 percent in small business year-to-date. Small business net line loss, which averaged about 29,000 per month in 2001, was down to about 3,000 per month in 2003. Wholesale revenue was down 2.4 percent compared to the fourth quarter of 2002 driven primarily by a decrease in switched access revenues and pricing pressure on hicap circuits offset by increasing UNE-P revenue. Large business revenue declined 4.1 percent primarily due to business employee reductions, restrained capital spending and ongoing impacts of migration of voice to data services.



For full year 2003, Communications Group revenue declined 0.2 percent. Consumer grew 1.4 percent, Small Business grew 2.8 percent, Large Business declined 4.2 percent and Wholesale declined 4.1 percent.



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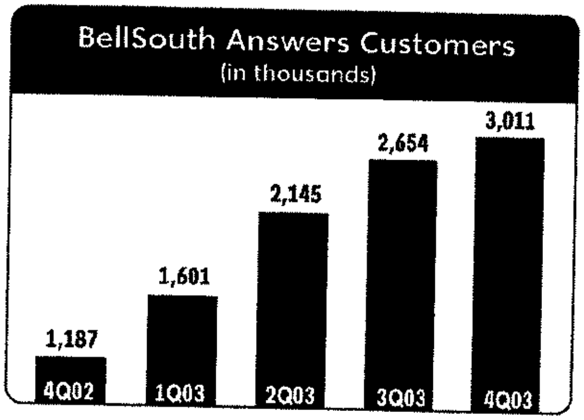
Packages

BellSouth Answers, the company's signature communications package, combines local calling plans with long distance, Internet and wireless services, all on one bill. Customers receive discounts on the additional services, ranging from $5 to $10 by purchasing Complete Choice and unlimited long distance. Customers who purchase Complete choice (a $15 buy up) will receive a $5 discount on additional services purchased. Customers who add unlimited long distance to complete choice (a $20 buy up) will receive a $10 discount on additional services purchased.

BellSouth Answers also benefits from BellSouth's ownership in Cingular by including wireless services in the package, a combination few competitors can match. Pricing ranges from approximately $33 monthly for local service and fixed rate long distance to $130 for local service, unlimited long distance, Fast Access DSL and Cingular Wireless. Starting in March of 2004, BellSouth will add DIRECTV digital satellite television service to the BellSouth Answers bundles, making BellSouth Answers the most comprehensive bundle in the marketplace today.

BellSouth surpassed the 3 million mark for Answers customers in the fourth quarter, a 24.1 percent penetration of our retail primary line residence base. Over 1 million of these customers subscribe to BellSouth's Unlimited Answers package – allowing these customers to call anywhere in the US anytime for a flat monthly fee. In addition, BellSouth added nearly 170,000 Complete Choice packages in 2003, as the company incented customers to buy up to receive the value-based Answers packages.



Over 75 percent of Answers customers have long distance in their package and over 40 percent have either Fast Access DSL or dial-up Internet service. The number of Answers customers increasing their affiliate services – such as long distance, wireless, DSL or dial-up Internet – doubled in the second half of 2003 compared to the first half. Increasing the number of services in a customer's bundle helps reduce competitive churn of high-value customers. For example, when a Complete Choice customer adds just long distance to the bundle, there is a slight improvement to competitive churn. If that customer adds just one additional service such as DSL, wireless or dial-up, churn decreases about 45 percent. In addition, Answers customers have an ARPU of over $62, nearly 50 percent higher than non-Answers customers.

Long Distance

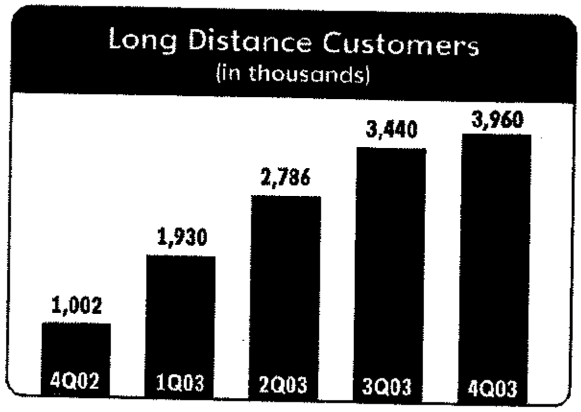
BellSouth's long distance growth in the fourth quarter was solid, adding 520,000 customers – a 15 percent sequential growth rate in the base of customers. InterLATA revenues grew 16 percent sequentially to $225 million and for the year totaled $622 million. BellSouth ended 2003 with over 3.9 million long distance customers, a penetration rate of 28.5 percent of primary residential access lines and 39 percent of BellSouth's mass-market small business accounts.

In Georgia and Louisiana, where BellSouth has been competing for 18 months, the company achieved 34 percent penetration of BellSouth's mass-market customers. In addition, as of December 31, the company completed a full year of competition in Florida and Tennessee – achieving a 25 percent penetration of BellSouth's mass-market customers. These two states combined grew long distance customers about 20 percent sequentially.

BellSouth's unlimited long distance offer continued to be a success. Launched in April to reduce competitive churn and fuel retention and reacquisition of residential customers, over one-third of BellSouth's long distance gross adds chose the Unlimited plan. Overall, Unlimited is the company's most popular consumer long distance plan with nearly 30 percent of the long distance consumer base – over 1 million customers – on the Unlimited plan.

Long distance total mass-market ARPU – in a range of $15 to $17 – was up 16% year-over-year primarily due to the growth in sales of BellSouth's unlimited and international calling plans. Across the region over 25 percent of the long distance customer base and over 40 percent of all fourth quarter gross adds subscribed to an international plan. New international subscribers were spurred primarily by the October introduction of BellSouth's International Advantage Plan, which offers residential customers competitive flat rates at any time to many countries including Canada and Mexico.

In the complex business segment, BellSouth signed over 1,800 contracts for LD services during the quarter. Cumulatively, the company has signed over 7,300 complex business contracts with a total contract value of $690 million. The majority of the revenue comes from customers who spend over $100,000 annually on long distance. BellSouth provides combined voice and data services,



including Frame Relay, ATM and Private Line with speeds up to OC-192 to customers in the small and large business segments.

Voice Revenue Details

Voice revenues increased 2.5 percent in the quarter, driven primarily by growth in interLATA long distance offset by continued access line share loss. Interlata long distance revenue was $225 million in the quarter, up from $34 million in the fourth quarter of 2002.

Total switched access lines declined 3.6 percent year-over-year. The access line decline was due to continued demand weakness, share loss and technology substitution. Retail residential lines declined 7.3 percent, with additional lines representing over one-quarter of the loss. Retail business lines declined 5.5 percent with small business lines declining 1.0 percent, large business lines declining 5.2 percent and lines purchased by other carriers declining 16.1 percent.

Total UNE-P growth was consistent with the third quarter, with 199,000 net UNE-P adds compared to 188,000 in the third quarter of 2003. The slight increase was primarily due to the impact of competitors expanding service offerings to all nine states in BellSouth's region beginning late in the third quarter.

Switched access minutes of use declined 1.8 percent year-over-year due to access line loss, the continuing shift of wholesale lines from resale to UNE-P, and alternative communications services, primarily wireless and e-mail. However, the rate of decline was the smallest in nearly three years, primarily due to the positive impact of unlimited long distance plans.

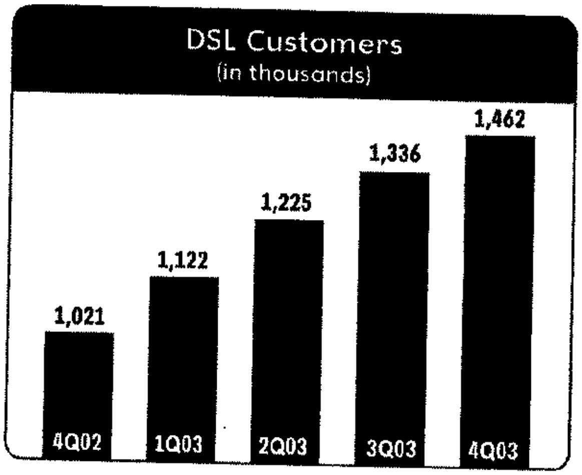
During the quarter, BellSouth announced that it is providing packaged communications solutions to provide small and medium-sized business customers with comprehensive voice capabilities, including an easy migration path to Voice over Internet Protocol (VOIP). The company is teaming with Cisco Systems and Nortel Networks to provide pre-configured voice platforms that provide customers with maximum flexibility for both traditional PBX and Key System-based and IP-based telephony as their business needs evolve. These packaged solutions are a component of BellSouth's plan to continually grow its comprehensive voice solutions portfolio. Other portions of this initiative include current Centrex IP market trials and network based VOIP services (softswitch enabled) that are expected to rollout in 2004.

Broadband and Data Services

Data revenues, of $1.1 billion, grew 4.0 percent compared to the fourth quarter of 2002 representing 15.1 percent of total BellSouth normalized revenues and 23.8 percent of Communications Group revenues in the quarter. Sales of retail data services grew 17.8 percent in the fourth quarter, driven by DSL. Sales of wholesale data transport services to other communications providers, including long distance companies and CLECs, declined 8.3 percent compared to the fourth quarter of 2002, primarily due to the cancellation of data lines by a bankrupt carrier and reduced business spending on technology.

BellSouth added 126,000 DSL customers in the fourth quarter compared to 97,000 in the fourth quarter of 2002, a 29.9% growth rate in quarterly adds. Total DSL customers of 1.46 million increased 43.2 percent over the fourth quarter of 2002. Penetration increased to 9.5 percent of qualified lines, 6.2 percent of total switched access lines. BellSouth added 132,000 net retail broadband customers in the fourth quarter, up from 115,000 in the third quarter, a 15 percent sequential growth rate in retail net adds. These retail adds were offset somewhat by wholesale disconnects as BellSouth continues to see a mix shift to more retail customers.

BellSouth's broadband coverage reaches over 70 percent of its households. This percentage has stayed relatively stable since the end of 2001, as BellSouth's early DSL capital deployment targeted about 85 percent of its high-value customers. DSL capital deployment since then is mostly



success-based to meet the growing demand. The company's industry-leading coverage is a result of targeted, market-driven deployment of DSL to over 1,450 central offices and over 14,000 remote terminals.

BellSouth offers a broadband product to its mass-market customers in two speeds. The original version – FastAccess DSL – runs at speeds of up to 1.5 Mbps. In mid-2003, the company began offering a lower speed version – FastAccess DSL Lite – running at speeds up to 256 Kbps. BellSouth's broadband offers are among the most competitive in its markets. With a qualifying BellSouth Answers bundle including Complete Choice and unlimited long distance, customers can buy FastAccess DSL for as low as $34.95 and FastAccess DSL Lite for as low as $24.95. Pricing varies by market and bundle.

As BellSouth has scaled the broadband business, costs continue to be tightly managed. In 2003, cash expense per average subscriber per month dropped 18 percent since the end of 2002. And this metric decreased more than 50 percent in the previous year.

BellSouth continued to implement process improvements to increase DSL efficiency in the fourth quarter, including 1) implementation of a Billing Center Customer Retail GUI which displays the customers account status on eight different systems all on one screen, reducing handling time, repeat calls and improving the customer experience. The system also includes a Churn Propensity indicator to identify potential churn customers; 2) implementation of a new Interactive Voice Recognition module allowing customers to access credit status and credit authentification, giving customers quicker routing to technical assistance and identification of repeat callers routing them to a higher-tiered agent group for assistance; 3) Implementation of a Churn Action Team making outbound calls to customers likely to discontinue service or offering targeted save offers for inbound calls.

In early January, BellSouth announced that it has expanded its integrated access solutions to provide additional flexibility and simplicity for businesses over a single, scalable circuit. The service portfolio, known as BellSouth Integrated Solutions, allows customers to combine voice, data and Internet capabilities over both T-1 and PRI platforms. This gives customers increased flexibility to add data services to underutilized voice circuits for a fraction of the cost of installing additional dedicated data circuits. BellSouth monitors and maintains the service and equipment for the customer by providing an integrated access device that resides on the customer premise – allowing businesses to focus on their own core operations instead of managing communications networks.

BellSouth added 126,000 DSL customers in the fourth quarter compared to 97,000 in the fourth quarter of 2002, a 29.9% growth rate in quarterly adds.

BellSouth is consistently recognized for its state-of-the-art data network. As of December 31, BellSouth had over 4.75 million miles of fiber, over 25,000 SONET rings, over 1,000 broadband switches, more than 220 Dense Wave Division Multiplexing systems and over 50 points of presence on its regional IP backbone network. 85 percent of all BellSouth loops can support a 3 Mbps downstream DSL rate and 50 percent can support 5 Mbps. BellSouth leads its peer group with nearly 200 fiber miles per 1000 access lines, allowing the company to pass nearly 1 million homes with fiber-to-the-curb capability.

Other Communications Group Revenues

Other Communications Group revenues declined 5.1 percent, primarily due to BellSouth's phase-out of its payphone business. BellSouth completed the exit of its retail payphone business at the end of 2003.

Expenses and Margins

Communications Group total operating expenses increased 0.6 percent year-over-year and only 0.2 percent sequentially. Drivers of expense growth year-over-year were increases in customer acquisition costs, increased employee pensions and benefits and increased costs of providing retail long distance services. These factors were partially offset by reduced labor and uncollectible costs and, to a lesser degree, by the phase-out of the payphone business.

Depreciation and amortization expense declined 9.6 percent, primarily driven by declining capex spending since 2000. In addition, the reduction was impacted by the effects of the previously announced adoption of SFAS 143, "Accounting for Asset Retirement Obligations," which addresses accounting for the cost of legal obligations associated with the retirement of long-lived assets. For 2003 as a whole, this accounting change resulted in depreciation savings of about $130 million.

The operating margin was 25.7 percent, up 110 basis points year over year.

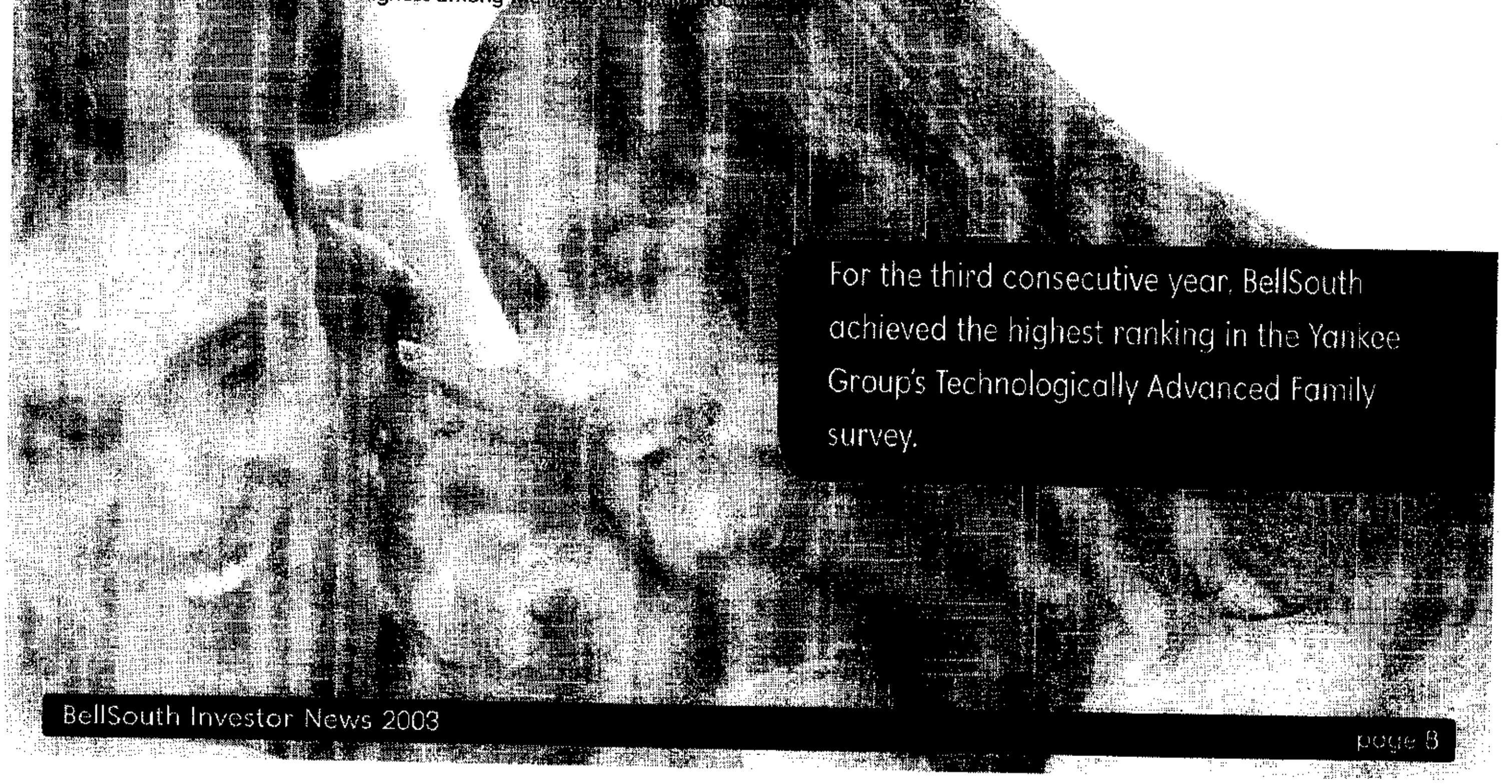
Service Excellence

During the fourth quarter, BellSouth continued to differentiate itself from its competitors by providing the highest levels of customer satisfaction in the industry. For the third consecutive year, BellSouth achieved the highest ranking in the Yankee Group's Technologically Advanced Family survey of overall satisfaction among residential customers – the third top ranking in 2003 for BellSouth in major studies of residential phone service. BellSouth ranked No. 1 among local phone companies in 11 of 12 metrics, excelling in professional personnel and service reliability. BellSouth also distinguished itself in the areas of quick access to customer service and timely problem solving.

During the quarter, BellSouth's national directory assistance (NDA) was ranked highest among the industry's major local and long distance telecom providers, according to a recent semiannual industry survey of 11 directory assistance providers conducted by the Paisley group. BellSouth's NDA had the highest scores among local and long distance companies in both survey categories of "customer fulfillment" and "customer care".

Earlier this year, BellSouth received the highest ranking in J.D. Power and Associates 2003 Local Residential Telephone Service Study℠ in the Southeast region. In addition, earlier this year BellSouth received its 10th straight No. 1 ranking among local telephone service providers in the American Customer Satisfaction Index (ACSI), marking a decade of distinction in customer service. In the past year, BellSouth has achieved the top ranking for local service in the J.D. Power and Associates 2002 Major Provider Business Telecommunications Service Study℠, the second year in a row BellSouth was recognized for customer satisfaction among business customers.

In broadband, BellSouth received the highest ranking for business broadband data service providers for the second year in a row in the J.D. Power and Associates 2003 Major Provider Business Telecommunications Services Study℠. In addition, BellSouth took the highest honors in customer satisfaction in the 2002 J.D. Power and Associates Residential Internet Customer Satisfaction Study℠ for High Speed ISPs, tying for highest score. BellSouth outperformed its cable modem competitors in this study.



For the third consecutive year, BellSouth achieved the highest ranking in the Yankee Group's Technologically Advanced Family survey.

Cingular Wireless

*Cingular's financial statements for 2003, 2002 and 2001 can be accessed at **www.bellsouth.com/investor**.*

For the quarter ending December 31, 2003, Cingular wireless added 642,000 customers. At the end of 2003 Cingular had more than 24 million customers, representing annual net additions of 2.1 million – the highest number of annual net additions since the company began operations. Localized marketing and sales strategies along with a strengthened link to parent channels powered 2003's customer growth. Cingular's parent companies drove 10 percent of gross postpaid additions through their channels in the fourth quarter.

Successful implementation of retention and upgrade programs held churn at 2.8 percent for the quarter, moderating the impact of the November 24th launch of WLNP. Churn was steady sequentially and up ten basis points year-over-year. At year end, more than 70% of Cingular's post-paid customers were under contract.

In the fourth quarter, to be consistent with emerging industry practices, Cingular and BellSouth's income statement presentation was changed for the current and prior year periods. Revenues now reflect billings to our customers for the Universal Service Fund (USF) and other regulatory fees. Expenses now include the related payments into the associated regulatory funds. The impact of this change on Cingular's fourth quarter revenues and expenses was $96 million. These revenues and expenses for the same quarter a year ago were $47 million. Operating income and net income for all periods were unaffected.

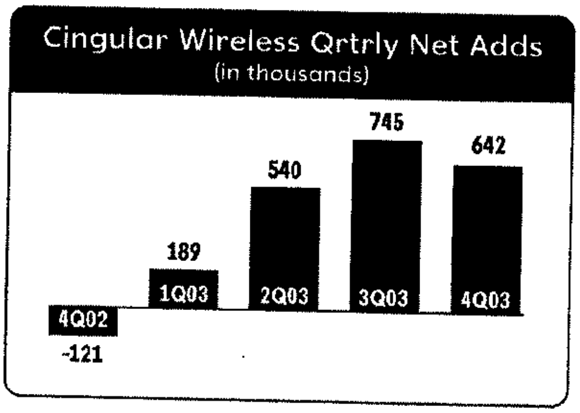
Revenues for the quarter totaled $3.9 billion, a 5.6 percent increase over the same period last year. ARPU declined for the quarter due to ongoing promotion and pricing initiatives. Service and equipment revenue rose 2.1 percent and 54.9 percent respectively as compared to the same quarter in 2002. Data revenue played an increasingly important role in revenue composition in 2003, rising almost 60 percent over 2002 levels. In addition to its proprietary Mobitex network, SMS, instant and multi-media messaging drove the rise in data revenue in 2003.

Customer and revenue growth took place alongside the conversion from TDMA to GPRS/GSM. GPRS/GSM not only allows customers to enjoy features like color screens and camera phones, but it also provides a more efficient conduit for voice and data traffic. At the end of the fourth quarter, Cingular's GPRS/GSM network was available to 93 percent of the company's operational POPs. Migration of Cingular's customer base is also progressing rapidly. At year end, 57 percent of subscriber minutes were traveling on the GSM network.

Cingular's operating income for the quarter was $329 million or 8.4 percent of operating revenues. Total operating expenses were $3.6 billion in the fourth quarter, up from $3.2 billion from the same quarter in 2002. The increase in expense was due to higher gross customer additions, upgrade programs, and advertising related to wireless number portability. Margins were also affected by increased system usage and dual network operating costs associated with the recent rollout of new GSM assets. During the quarter, Cingular deployed more than 750 cellular sites across its territory increasing the quality and coverage of its network.

Cingular continued to demonstrate its commitment to improving the customer experience in the fourth quarter. The company's spectrum position was improved during the quarter with the purchase of three Sunshine PCS' spectrum licenses in Florida. These licenses cover Tallahassee, Panama City, and Ocala. The previously announced Dobson Wireless swap, U.S. Unwired spectrum acquisition, and the NextWave license purchase are on track to close in the first half of 2004. This aggressive spectrum expansion allows Cingular to increase capacity and coverage and to lower subscriber roaming costs.

EDGE (Enhanced Datarate for GSM Evolution), a high speed data technology platform for GSM, was also actively deployed during the quarter. At year end, 20% of Cingular's operating footprint was EDGE capable. EDGE



allows subscribers to enjoy near broadband speeds when accessing the Internet from a phone or laptop or while sending and receiving digital images. EDGE enables users to download data at speeds up to 170 kilobits per second with average speeds between 75 and 135 kilobits per second.

In October, Cingular introduced FastForward™, a patented device that automatically forwards wireless calls to the user's wireline phone. When the Cingular Wireless phone is "cradled", calls are forwarded to a designated landline phone, while the wireless phone's battery is automatically re-charged. The FastForward product, along with bundled service offerings and combined billing, further integrates Cingular's customers' home and mobile communication needs.

Latin America

Customers, revenues, and operating margins showed significant improvement for the quarter. Revenues for the Latin segment rose 30.9 percent to $636 million compared to the same quarter in 2002. Wireless service revenue increased 29.2 percent and equipment and other revenue increased 50.0 percent over the same period. Strong customer growth and stable ARPUs were the primary drivers behind the revenue increase. For the fifth straight quarter, subscriber ARPU remained stable or increased. In the fourth quarter, ARPU increased 11.8 percent year-over-year to $19. The effect of the depreciation of the Venezuelan Bolivar on Latin segment revenues was almost completely offset by the appreciation of Argentine and Chilean currencies.

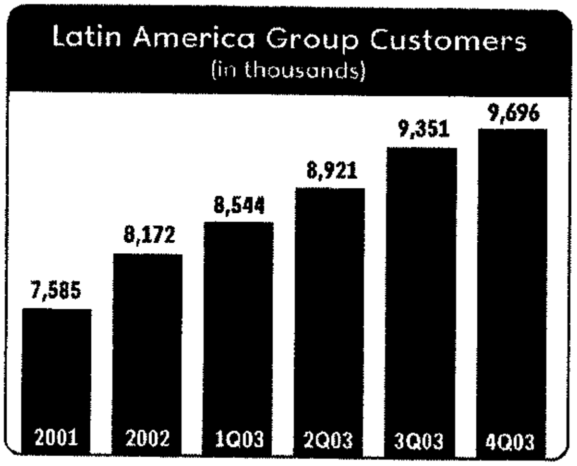
Consolidated customer additions continued their strong growth in the fourth quarter. BellSouth added 345,000 wireless customers in Latin America up from 259,000 in the fourth quarter of 2002. The largest contributors to sequential subscriber growth were Venezuela, Argentina, and Colombia. Over 1.5 million customers were added through organic growth in 2003.

Technology upgrades in concert with targeted capital spending also punctuated fourth quarter results. With the completion of a CDMA overlay in Peru in December, all Latin affiliates now have CDMA technology in place. Network standardization allows BellSouth's Latin operating companies to reduce costs through shared infrastructure and other economies of scale and scope. Rollout of 1xRTT continued during the quarter. This technology is an enhanced voice and data transmission protocol and is available to BellSouth's Latin American subscribers in nine out of ten operating countries. Uruguay is the only country not yet provisioned for 1xRTT. Even with the extensive CDMA overlay and 1xRTT deployment, capital expenditures declined 46.4 percent compared to levels seen two years ago. Capex in the fourth quarter was $123 million and $268 million for all of 2003.

BellSouth's Latin operating margins benefited from substantial revenue growth for the quarter. Operating income increased by 57.1 percent to $132 million compared to the same period last year. Operating margin in the fourth quarter increased by 350 basis points year-over-year to 20.8 percent. Segment net income for the quarter was $62 million, up 59.0 percent year-over-year and 29.2 percent sequentially.

Improving revenues, attention to operating expenses, and targeted capital deployment contributed to positive cash flow. For the quarter and for all of 2003, BellSouth's Latin operations generated positive operating free cash flow. Organic free cash flow from operations continues to fund BellSouth's Latin America affiliates' solid subscriber growth.

In the fourth quarter, BellSouth benefited from its 1xRTT rollout by deploying push-to-talk systems in Panama, Guatemala, Ecuador, Venezuela, and Chile. Push-to-talk allows customers to have a cellular phone that can establish quick two-way communications. The push-to-talk feature allows simultaneous communication between one subscriber and a group of up to fifty subscribers. In



Consolidated Customers

addition to push-to-talk, BellSouth's Latin America wireless subscribers used their handsets to send SMS messages, browse the web, play downloaded games, and send photographs. In 2003, BellSouth Latin America wireless subscribers sent 3.3 billion SMS messages.

BellSouth's Latin wireless public telephony and fixed wireless initiatives continued to perform well in the fourth quarter. Wireless public telephone lines, currently available in seven countries, grew to 26,000 up from 17,000 in 2002. In the fourth quarter, fixed wireless customers grew by 61.6 percent year-over-year to 391,000. Fixed wireless was available in six of BellSouth's ten Latin affiliate countries at year-end.

BellSouth continues to rationalize underperforming assets. In October, BellSouth entered into a debt purchase agreement with the senior secured creditors of BCP, a wireless company in Sao Paulo, Brazil. As a result of the agreement and subsequent transfer of shares in BCP, BellSouth sold its entire interest in BCP and received cash proceeds of $50 million. In accordance with GAAP, BellSouth recognized a loss on the reversal of foreign currency translation adjustment of $182 million. The total net loss associated with the sale was $161 million.

The impact of currency fluctuations on U.S. dollar-denominated debt in Latin America resulted in a $9 million increase in reported earnings in the fourth quarter for foreign currency transaction gains. This non-cash gain, which is excluded from normalized segment results, was generated largely by the appreciation of the Chilean Peso.

Consolidated Revenue

Additional Details

Domestic Advertising and Publishing

BellSouth's advertising and publishing revenues declined 6.1 percent in the quarter, primarily reflecting weak economic conditions that have affected the directory advertising environment. In addition, competition also affected revenue. Operating income of $240 million increased 21.8 percent compared to the same period in the prior year, primarily due to a $68 million reduction year-over-year in uncollectible expense. The operating margin was 46.0 percent, a 10.6 percentage point improvement year-over-year. Sequentially, revenues are up 3.4 percent due to higher sales agency commissions. Sequential operating expenses were up due to higher advertising costs – primarily seasonal – and higher sales agency commission expense.

During the quarter, RealPages.com, BellSouth's online Yellow Pages service became the first Yellow Pages publisher to develop a one-stop, full service solution that provides businesses with an easy way to ensure they reach customers searching the Internet. Businesses can use the service to ensure that popular search engines have the business web site properly indexed with an accurate description so that the site shows up in search results that are relevant to potential buyers. Advertisers benefit not only from BellSouth's expertise in search engine marketing, but also from the company's unique offer of a click-through guarantee that they will reach consumers using search engines.

Normalized Results

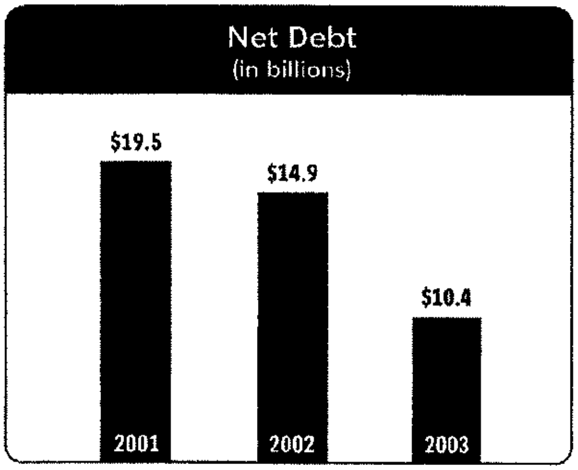
Total normalized operating expenses increased 4.4 percent in the quarter, driven primarily by growth in customer acquisition costs, employee pension and retirement costs, increasing Cingular and Latin American volumes, dual Cingular network costs and increased cost of goods for retail long distance services, partially offset by lower labor and uncollectible costs.

Depreciation and amortization expense declined 5.0 percent, primarily driven by declining wireline capex spending over the past three years, partially offset by increases in capex at Cingular. In addition, the impacts of SFAS 143 helped lower depreciation expense. Sequentially, expenses were up 1.2 percent, driven primarily by increases in customer acquisition costs and Latin uncollectible expense. The normalized effective tax rate for the quarter was 34.8 percent and 35.2 percent for 2003.

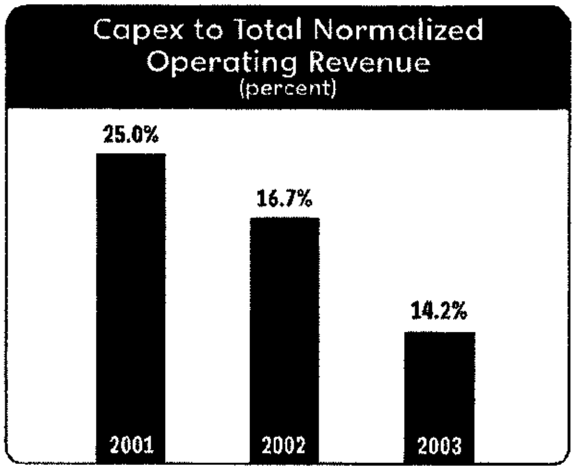
Normalized interest expense decreased 15.4 percent driven by a $2.4 billion reduction in total debt in the past year – a 13.9 percent drop – and slightly lower interest rates. Net debt was down $4.5 billion in the past 12 months, to $10.4 billion, a 30.1 percent reduction. Sequentially, interest expense decreased 4.4 percent driven by decreases in other interest-bearing liabilities while debt levels were flat sequentially.

Capital expenditures for 2003 were $3.2 billion, a reduction of 15.5 percent when compared to 2002.

During the quarter, BellSouth increased its quarterly dividend 8.7% to 25 cents per common share. Over the last seven quarters, BellSouth has increased its quarterly dividend 31.6% from 19 cents per common share to 25 cents per common share. In addition, BellSouth repurchased over 20 million shares of common stock in the fourth quarter. Since the inception of the program, which ended on December 31, BellSouth repurchased nearly 50 million shares of common stock with a value of over $1.2 billion. bls



(Defined as long-term plus short-term debt less cash)



(Capex and Normalized TOR both exclude domestic wireless)

Click here to view a complete set of financial statements.

In addition to historical information, this document may contain forward-looking statements regarding events and financial trends. Factors that could affect future results and could cause actual results to differ materially from those expressed or implied in the forward-looking statements include: (i) a change in economic conditions in domestic or international markets where we operate or have material investments which would affect demand for our services; (ii) currency devaluations and continued economic weakness in certain international markets in which we operate or have material investments; (iii) the intensity of competitive activity and its resulting impact on pricing strategies and new product offerings; (iv) higher than anticipated cash requirements for investments, new business initiatives and acquisitions; (v) unfavorable regulatory actions and (vi) those factors contained in the Company's periodic reports filed with the SEC. The forward-looking information in this document is given as of this date only, and BellSouth assumes no duty to update this information.

This document may also contain certain non-GAAP financial measures. The most directly comparable GAAP financial measures, and a full reconciliation of non-GAAP to GAAP financial information, are attached hereto and provided on the Company's investor relations web site, www.bellsouth.com/investor.
Complete financial statements and the fourth quarter 2003 earnings press release can be accessed at BellSouth's web site, www.bellsouth.com/investor